

**SOUTH CAROLINA  
DEPARTMENT OF ALCOHOL  
AND OTHER DRUG ABUSE SERVICES  
COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2006**

## CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
OTHER WEAKNESS	6
RECEIPT RECORDING AND SEQUENCING	7
MANAGEMENT'S RESPONSE	8

# *State of South Carolina*



## *Office of the State Auditor*

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA  
DEPUTY STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

March 16, 2007

The Honorable Mark Sanford, Governor  
and  
Mr. W. Lee Catoe, Director  
South Carolina Department of Alcohol  
and Other Drug Abuse Services  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of South Carolina Department of Alcohol and Other Drug Abuse Services (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2006, in the areas addressed. The Department's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. **Cash Receipts and Revenues**

- We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations and to determine that revenue collection and retention or remittance were supported by law.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- We compared current year recorded revenues at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the earmarked, restricted and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (100% – general fund, \$12,620 – earmarked fund, \$5,660 – restricted fund, and \$102,480 – federal fund) and  $\pm 10$  percent.

The Honorable Mark Sanford, Governor  
and  
Mr. W. Lee Catoe, Director  
South Carolina Department of Alcohol  
and Other Drug Abuse Services  
March 16, 2007

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

2. **Non-Payroll Disbursements and Expenditures**

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of the Department, and were paid in conformity with State laws and regulations and to determine if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$52,784 – general fund, \$13,366 – earmarked fund, \$9,637 – restricted fund, and \$102,590 – federal fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

3. **Payroll Disbursements and Expenditures**

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements and processed in accordance with the agency's policies and procedures and State regulations.
- We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for all new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.

The Honorable Mark Sanford, Governor  
and  
Mr. W. Lee Catoe, Director  
South Carolina Department of Alcohol  
and Other Drug Abuse Services  
March 16, 2007

- We compared current year payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$52,784 – general fund, \$13,366 – earmarked fund, \$9,637 – restricted fund, and \$102,590 – federal fund) and  $\pm 10$  percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. We investigated changes of  $\pm 5$  percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

4. **Journal Entries and Appropriation Transfers**

- We inspected selected recorded journal entries and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures and State regulations.

The journal entries selected were chosen randomly. We found no exceptions as a result of the procedures.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and selected entries were processed in accordance with the agency's policies and procedures and State regulations.

The transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Receipt Recording and Sequencing in the Accountant's Comments section of this report.

The Honorable Mark Sanford, Governor  
and  
Mr. W. Lee Catoe, Director  
South Carolina Department of Alcohol  
and Other Drug Abuse Services  
March 16, 2007

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2006, and inspected selected reconciliations of balances in the Department's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records and/or in STARS.

The reconciliations selected were chosen randomly. We found no exceptions as a result of the procedures.

7. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Agency's compliance with Appropriation Act general and agency specific provisos.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2006, prepared by the Department and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2006, prepared by the Department and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

The Honorable Mark Sanford, Governor  
and  
Mr. W. Lee Catoe, Director  
South Carolina Department of Alcohol  
and Other Drug Abuse Services  
March 16, 2007

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and management of the South Carolina Department of Alcohol and Other Drug Abuse Services and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", with a stylized flourish at the end.

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

**ACCOUNTANT'S COMMENTS**



## **OTHER WEAKNESS**

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

The condition described in this section has been identified while performing the agreed-upon procedures but it is not considered a violation of State Laws, Rules or Regulations.

## **RECEIPT RECORDING AND SEQUENCING**

We found that the Department did not input month-end receipt documents into its SABAR accounting system until it received the State Treasurer's Office receipt. The Department followed this practice to avoid documenting timing differences on its month-end reconciliations between its records and the Comptroller General's (CG) monthly reports. Although the cash associated with the receipt vouchers was timely deposited, this practice resulted in assigning document numbers out of proper numerical sequence. While we were able to account for all documents within the sequence, delaying the recording of the receipts and assigning transaction numbers out of sequence increases the risk that errors could occur.

Effective internal controls require that the Department promptly record accounting transactions and assign document numbers in proper numerical sequence to ensure that all transactions are properly and timely accounted for in the accounting system.

We recommend that the Department implement procedures to ensure that receipt documents are timely recorded in SABAR in order to maintain proper numerical sequence. When performing monthly reconciliations of its records to the CG reports, the Department should document any outstanding deposits as reconciling items caused by timing differences.

## **MANAGEMENT'S RESPONSE**



# South Carolina Department of Alcohol and Other Drug Abuse Services

MARK SANFORD  
Governor

W. LEE CATOE  
Director

April 17, 2007

Mr. Richard H. Gilbert Jr., CPA  
Interim State Auditor  
Office of the State Auditor  
1401 Main Street, Suite 1200  
Columbia, South Carolina 29201

Dear Mr. Gilbert:

The South Carolina Department of Alcohol and Other Drug Abuse Services (DAODAS) has prepared the following response to the finding presented in the Agreed Upon Procedure audit of financial records ending June 30, 2006. With this response, we have now completed our review and authorize release of the report.

## 1. Receipt Recording and Sequencing

**Corrective Action:** The agency had realized the need to revise its procedures for recording revenue into SABAR prior to this audit. Effective April 2, 2007, DAODAS will post revenue at the first available opportunity and ensure that receipts are recorded in a timely fashion and in numerical sequence. Any outstanding deposits will be noted as reconciling items.

We appreciate the professional attitude and conduct of your staff during the audit. If you have any questions regarding the corrective action described above, please contact Lillian Roberson at (803) 896-1145 or Carla Spires at (803) 896-5547.

Sincerely,

W. Lee Catoe  
Director

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